

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Big Creek-Mentor Utility Authority</b>	County <b>Oscoda</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>11/17/05</b>	Date Accountant Report Submitted to State: <b>2/7/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Robertson &amp; Carpenter CPAs LLP</b>			
Street Address <b>P.O. Box 308</b>		City <b>Mio</b>	State <b>MI</b>
Accountant Signature		ZIP <b>48647-0308</b>	
		Date <b>2/7/06</b>	

**Big Creek - Mentor Utility Authority  
Oscoda County, Michigan  
Financial Report  
With Supplemental Information  
March 31, 2006**

Big Creek - Mentor Utility Authority

Table of Contents

Page

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Proprietary Funds:	
Statement of Net Assets	
Business-type Activities - Enterprise Funds	10
Statement of Revenues, Expenses and Changes in Net Assets	
Business-type Activities - Enterprise Funds	11
Statement of Cash Flows	
Business-type Activities - Enterprise Funds	12
Notes to Financial Statements	13-19
<b>Supplemental Information</b>	
All Proprietary Funds	
Combining Balance Sheet	20
Combining Statement of Revenues, Expenses, and	
Changes in Fund Equity	21
Combining Statement of Cash Flows	22
Water Fund	
Comparative Balance Sheet	23
Comparative Statement of Revenues, Expenses, and	
Changes in Fund Equity	24
Comparative Statement of Cash Flows	25
Sewer Fund	
Comparative Balance Sheet	26
Comparative Statement of Revenues, Expenses, and	
Changes in Fund Equity	27
Comparative Statement of Cash Flows	28
<b>Appendices</b>	
Report on Internal Control Over Financial Reporting and on Compliance	
and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance With <i>Government Auditing Standards</i>	29



Robert J. Carpenter, CPA  
Rodney C. Robertson, CPA

## ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 308 • 109 E. Tenth St. • Mio, Michigan 48647

Phone (989) 826-5442 • Fax (989) 826-3038

Other office: Rose City, Michigan

### INDEPENDENT AUDITOR'S REPORT

Utility Authority Board  
Big Creek - Mentor Utility Authority  
Mio, MI 48647

We have audited the accompanying financial statements of the business-type activities of Big Creek - Mentor Utility as of and for the year ended March 31, 2006, which comprise the Utility Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Big Creek - Mentor Utility Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Big Creek - Mentor Utility Authority as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2006 on our consideration of Big Creek - Mentor Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing to internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 3 through page 7 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Big Creek - Mentor Utility Authority's basic financial statements. The items identified as supplementary information in the table of contents; the combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Big Creek - Mentor Utility Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Comparative total data for the prior year have been presented in the supplementary financial information in order to provide an understanding of the change in the Authority's financial position and operations.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
Mio, Michigan  
November 27, 2006

## Management's Discussion and Analysis

As management of Big Creek - Mentor Utility Authority (the "Utility Authority"), we offer readers of the Utility Authority's financial statements this narrative overview and analysis of the financial activities of the Utility Authority for the fiscal year ended March 31, 2006.

### Financial Highlights

- The assets of the Utility Authority exceeded its liabilities at the close of the most recent fiscal year by \$6,894,261 (*net assets*). Of this amount, \$474,526 (*unrestricted net assets*) may be used to meet the Utility Authority's ongoing obligations
- The Utility Authority's total net assets decreased by \$130,020.
- The operating revenues decreased by \$43,672, while operating expenses decreased by \$7,763.
- Local capital contributions increased \$121,546 which was composed of \$36,000 from the townships of Big Creek and Mentor with balance coming from new users.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Utility Authority's basic financial statements. The Utility Authority's basic financial statements consist of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *Government-wide financial statements* are designed to provide readers with a broad overview of the Utility Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Utility Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Utility Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Utility Authority that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The business-type activities of the Utility Authority include providing water and sewer services.

The Government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Utility Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Utility Authority can be found in one category – proprietary funds.

**Proprietary funds.** Big Creek-Mentor Utility Authority maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the Government-wide financial statements. Big Creek-Mentor Utility Authority uses enterprise funds to account for its Water and Sewer funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on the Water and Sewer funds which are considered to be major funds of Big Creek-Mentor Utility Authority.

The basic proprietary fund financial statements can be found on pages 10-12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-22 of this report.

**Other information.** In addition to the basic financial statements and the accompanying note, this report also presents other supplementary information concerning the proprietary funds comparisons with the prior year. This other information can be found on pages 20-28 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Utility Authority, assets exceeded its liabilities by \$6,894,261 at the close of the most recent fiscal year.

The largest portion of the Utility Authority's net assets (92%) reflects its investment in capital assets (e.g., land, land improvements, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Utility Authority uses these capital assets to provide water and sewer services to the community; consequently, these assets are *not* available for future spending.

### Utility Authority's Net Assets

	<b>Business – Type Activities</b>	
	<b><u>March 31, 2006</u></b>	<b><u>March 31, 2005</u></b>
Current and Other Assets	\$ 745,434	\$ 702,577
Capital Assets, Net	<u>8,328,938</u>	<u>8,523,114</u>
Total Assets	<u>9,074,372</u>	<u>9,225,691</u>
Current Liabilities	212,111	208,410
Long Term Liabilities	<u>1,968,000</u>	<u>1,993,000</u>
Total Liabilities	<u>2,180,111</u>	<u>2,201,410</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	6,335,938	6,506,114
Restricted for Debt Service	83,797	68,778
Unrestricted	<u>474,526</u>	<u>449,389</u>
<b>Total Net Assets</b>	<b><u>\$ 6,894,261</u></b>	<b><u>\$ 7,024,281</u></b>



The Utility Authority's net assets decreased by \$130,020 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$25,137 or 2%, during fiscal year ended March 31, 2006.

### Utility Authority's Changes in Net Assets

	<b>Business –Type Activities</b>	
	<b><u>March 31, 2006</u></b>	<b><u>March 31, 2005</u></b>
<b>Revenue:</b>		
Program Revenue:		
Charges for services	\$ 287,638	\$ 331,310
General Revenue:		
Interest Earnings	8,825	5,590
Capital Contributions	<u>121,546</u>	<u>52,988</u>
<b>Total Revenue</b>	<b>418,009</b>	<b>389,888</b>
<b>Expenses:</b>		
Water and Sewer	447,779	455,542
Interest on long term debt	<u>100,250</u>	<u>101,400</u>
<b>Total Expenses</b>	<b><u>548,029</u></b>	<b><u>556,942</u></b>
<b>(Decrease) in Net Assets</b>	<b>(130,020)</b>	<b>(167,054)</b>
Net Assets, Beginning of Year	<u>7,024,281</u>	<u>7,191,335</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 6,894,261</u></b>	<b><u>\$ 7,024,281</u></b>

**Business -Type activities.** The Utility Authority's total operating revenues decreased by \$43,672 from last fiscal year. This was primarily attributed to the prior year including an extra month billings due to a new software billing system. Expenses decreased by \$7,763 due to the prior year recognizing an extra month of contracted services to properly match the extra month of billings.

### Financial Analysis of the Government's Funds

As noted earlier, the Utility Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Proprietary funds.** Big Creek-Mentor Utility Authority's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer funds at the end of the fiscal year amounted to \$474,526. The restricted net assets amounted to \$83,797. Other factors concerning the finances of the proprietary funds have already been addressed in the discussion of Big Creek-Mentor Utility Authority's business-type activities.

## Capital Asset and Debt Administration

**Capital assets.** The Utility Authority's investment in capital assets for its business - type activities as of March 31, 2006, amounted to \$8,328,938 (net of accumulated depreciation). Investment in capital assets includes land, the water distribution system, the sewer collection system, and equipment. Additions totaled \$726 for the fiscal year.

### Utility Authority's Capital Assets (net of depreciation)

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Land – Water Fund	16,772	16,772
Land – Sewer Fund	47,133	47,133
Water System	2,114,698	2,163,690
Sewer System	6,148,576	6,293,181
Equipment	1,759	2,338
<b>Total</b>	<b><u>\$ 8,328,938</u></b>	<b><u>\$ 8,523,114</u></b>

Additional information on the Utility Authority's capital assets can be found in note 3 on page 17 of this report.

**Long term debt.** Big Creek-Mentor Utility Authority has two outstanding bond issues, both dated June 17, 1997. These issues were used to assist in the construction of the sewer system. The original amount of issue #1 was \$2,000,000 and the original amount of issue #2 was \$135,000. The rate of interest is 5.00% for both issues. Payments for the year ended March 31, 2006 totaled \$124,250 including interest of \$100,250 and principal of \$24,000. The outstanding principal due at March 31, 2006 was \$1,993,000.

### Factors Bearing on the Utility Authority's Future

The Big Creek-Mentor Utility Authority Board reviews the usage and billing rates on an annual basis and makes adjustments as needed. Additional users are anticipated coming on line with the system in the year ended March 31, 2007.

### Requests for Information

This financial report is designed to provide a general overview of the Utility Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Big Creek - Mentor Utility Authority  
P.O. Box 99  
Mio, Michigan 48647

## **Basic Financial Statements**

Big Creek - Mentor Utility Authority  
Statement of Net Assets  
Proprietary Funds  
March 31, 2006

	Business-type Activities Enterprise Fund
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 287,410
Accounts receivable - usage fees	<u>45,676</u>
Total Current Assets	<u>333,086</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	83,797
Accounts receivable - hookup fees	328,551
Capital assets	<u>8,328,938</u>
Total Noncurrent Assets	<u>8,741,286</u>
Total Assets	<u>9,074,372</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 35,032
Due to townships	152,079
Current portion of long-term debt	<u>25,000</u>
Total Current Liabilities	<u>212,111</u>
Noncurrent Liabilities:	
Long-term debt	<u>1,968,000</u>
Total Noncurrent Liabilities	<u>1,968,000</u>
Total Liabilities	<u>2,180,111</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,335,938
Restricted for debt service	83,797
Unrestricted	<u>474,526</u>
Total Net Assets	<u>\$ 6,894,261</u>

See accompanying notes

Big Creek - Mentor Utility Authority  
Statement of Revenues, Expenses, and Changes in Net Fund Assets  
Proprietary Funds  
Year Ended March 31, 2006

	Business-type Activities Enterprise Fund
<b>OPERATING REVENUES</b>	
Charges for services	\$ 259,522
Penalties and interest charges	26,172
Miscellaneous	1,944
Total operating revenues	<u>287,638</u>
<b>OPERATING EXPENSES</b>	
Contracted services	189,465
Insurance	8,505
Maintenance and repairs	3,092
Wages and payroll taxes	12,225
Professional services	6,064
Printing and publishing	450
Office expenses	3,938
Supplies	489
Licenses and permits	4,263
Utilities	24,386
Depreciation	194,902
Total operating expenses	<u>447,779</u>
<b>OPERATING INCOME (LOSS)</b>	(160,141)
<b>NON OPERATING REVENUES (EXPENSES)</b>	
Interest income	8,825
Interest expense - bonds	(100,250)
Net nonoperating revenues (expenses)	<u>(91,425)</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	(251,566)
Capital contributions	<u>121,546</u>
<b>CHANGE IN NET ASSETS</b>	(130,020)
<b>NET ASSETS - April 1, 2005</b>	<u>7,024,281</u>
<b>NET ASSETS - March 31, 2006</b>	<u><u>\$ 6,894,261</u></u>

See accompanying notes

Big Creek - Mentor Utility Authority  
Statement of Net Assets  
Proprietary Funds  
March 31, 2006

	Business-type Activities Enterprise Funds	
	<u>Water Fund</u>	<u>Sewer Fund</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 21,735	\$ 265,675
Accounts receivable - usage fees	<u>10,635</u>	<u>35,041</u>
Total Current Assets	<u>32,370</u>	<u>300,716</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	-	83,797
Accounts receivable - hookup fees	-	328,551
Capital assets	<u>2,131,470</u>	<u>6,197,468</u>
Total Noncurrent Assets	<u>2,131,470</u>	<u>6,609,816</u>
Total assets	<u>2,163,840</u>	<u>6,910,532</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	10,080	24,952
Due to townships	14,000	138,079
Current portion of noncurrent liabilities	<u>-</u>	<u>25,000</u>
Total Current Liabilities	<u>24,080</u>	<u>188,031</u>
Noncurrent Liabilities		
Bonds payable	<u>-</u>	<u>1,968,000</u>
Total Noncurrent Liabilities	<u>-</u>	<u>1,968,000</u>
Total Liabilities	<u>24,080</u>	<u>2,156,031</u>
<b>NET ASSETS</b>		
Invested in capital assets - net of related debt	2,131,470	4,204,468
Restricted for debt service	-	83,797
Unrestricted	<u>8,290</u>	<u>466,236</u>
Total Net Assets	<u>\$ 2,139,760</u>	<u>\$ 4,754,501</u>

See accompanying notes

Big Creek - Mentor Utility Authority  
Statement of Revenue, Expenses, and Changes in Net Assets  
Proprietary Funds  
March 31, 2006

	Business-type Activities Enterprise Funds	
	Water Fund	Sewer Fund
<b>Operating Revenues</b>		
Water sales	\$ 56,193	\$ -
Sewage disposal services	-	203,329
Penalties and interest charges	1,426	24,746
Installation and other miscellaneous charges	-	1,944
Total Operating Revenues	<u>57,619</u>	<u>230,019</u>
<b>Operating Expenses</b>		
Contracted services	59,359	130,106
Insurance	-	8,505
Maintenance and repairs	1,372	1,720
Wages and payroll taxes	-	12,225
Professional services	-	6,064
Printing and publishing	-	450
Office expenses	-	3,938
Supplies	-	489
Licenses and permits	-	4,263
Utilities	2,743	21,643
Depreciation	49,718	145,184
Total Operating Expenses	<u>113,192</u>	<u>334,587</u>
<b>Operating Income (Loss)</b>	<u>(55,573)</u>	<u>(104,568)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest and investment revenue	223	8,602
Interest expense	-	(100,250)
Total Nonoperating Revenue (Expenses)	<u>223</u>	<u>(91,648)</u>
<b>Income (Loss) Before Contributions</b>	(55,350)	(196,216)
Capital contributions	<u>3,196</u>	<u>118,350</u>
<b>Change in Net Assets</b>	(52,154)	(77,866)
<b>Total Net Assets - Beginning</b>	<u>2,191,914</u>	<u>4,832,367</u>
<b>Total Net Assets Ending</b>	<u>\$ 2,139,760</u>	<u>\$ 4,754,501</u>

See accompanying notes

Big Creek - Mentor Utility Authority  
Statement of Cash Flows  
Proprietary Funds  
Year Ended March 31, 2006

	Business-type Activities Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 314,652
Cash payments to suppliers for goods and services	(239,079)
Cash payments to employees for services	(11,097)
	<u>64,476</u>
Net cash provided (used) by operating activities	<u>64,476</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(726)
Contributed capital - Local	121,546
Principal paid on bonds	(24,000)
Interest paid on bonds	(100,250)
	<u>(3,430)</u>
Net cash provided by capital and related financing activities	(3,430)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	<u>8,825</u>
<b>NET increase (decrease) in cash</b>	69,871
<b>CASH - April 1, 2005</b>	<u>301,336</u>
<b>CASH - March 31, 2006</b>	<u><u>\$ 371,207</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (160,141)
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	194,902
(Increase) decrease in accounts receivable	27,014
Increase (decrease) in accounts payable	<u>2,701</u>
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ 64,476</u></u>

See accompanying notes



Big Creek - Mentor Utility Authority  
Notes to Financial Statements  
March 31, 2006

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Big Creek - Mentor Utility Authority ("the Utility Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Utility Authority:

**Reporting Entity**

The Utility Authority operates under an appointed Utility Authority Board composed of the Supervisors from Big Creek and Mentor Townships, one person appointed by the Big Creek Township Board, one person appointed by the Mentor Township Board, and one person appointed by majority vote of the four members of the Utility Authority Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Utility Authority's reporting entity, and which organizations are legally separate, component units of the Utility Authority. Based on the application criteria, the Utility Authority does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and statement of revenues, expenses and changes in net assets) report information as a whole on all of the nonfiduciary activities of the Utility Authority. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All the Utility Authority's government-wide activities are considered business-type activities.

The accounts of the Utility Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

Separate financial statements are provided for the major proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in accounts and reported in financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

The Utility Authority reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with standards of the Governmental Accounting Standards Board. The Utility Authority has elected to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods and services or privileges provided; (2) operating grants and contributions; (3) capital grants and contributions, including special assessments (if any).

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of hook-up fees intended to recover the cost of infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets**

**Bank Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments (certificates of deposit) with a maturity of 12 months or less.

**Restricted Assets**

The terms of the Sewage Disposal System Revenue Bonds recorded in the Sewer enterprise fund, require amounts to be set aside in a Bond Reserve Account. This amount has been classified as a restricted asset.

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure are reported in the business-type activities column of the government-wide financial statements. Capital assets are defined by the Utility Authority as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities, and Net Assets (continued)**

**Capital Assets (continued)**

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Water System	50 years
Sewer System	50 years
Equipment	5-10 years

**Long-Term Obligations**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long term obligations (if any) are reported as liabilities in the business-type activities and the proprietary fund statement of net assets.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could vary from those estimates.

**Note 2 - Deposits and Investments**

Deposits are carried at cost. Deposits are in one financial institution in the name of the Big Creek - Mentor Utility Authority Treasurer. Michigan Compiled Laws, Section 129.91, as amended, authorizes the Utility Authority to deposit and invest in the accounts of a state or nationally chartered bank, a state or federally chartered savings and loan association, a savings bank, or a credit union whose deposits are insured by an agency of the U.S. government and which maintains a principal office or branch office in this state under the law of this state of the United States; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

The Utility Authority's investments are in accordance with statutory authority.

Big Creek - Mentor Utility Authority  
Notes to Financial Statements  
March 31, 2006

**Note 2 - Deposits and Investments (continued)**

At year-end, the Utility Authority's deposits were reported in the basic financial statements in the following categories:

	Business-type Activities
Cash and cash equivalents	\$ 287,410
Restricted Assets	83,797
Total	\$ <u>371,207</u>

The breakdown of deposits is as follows:

Petty cash	\$ 50
Bank deposits (checking and savings accounts, and certificates of deposit)	371,157
Total	\$ <u>371,207</u>

The bank balance of the Utility Authority's deposits is \$371,157, of which \$200,000 is covered by federal depository insurance.

Investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the Utility Authority or its agent in the Utility Authority's name
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Utility Authority's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Utility Authority's name).

The Utility Authority did not have any investments to be classified as to risk at year end.

The Utility Authority's investment policy has not been updated to conform to Governmental Accounting Standards Board #40.

Big Creek - Mentor Utility Authority  
Notes to Financial Statements  
March 31, 2006

**Note 3 - Capital Assets**

Capital asset activity for the year was as follows:

	April 1, 2005	Additions	Deletions	March 31, 2006
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Water Fund:				
Land	\$ 16,772	\$ -	\$ -	\$ 16,772
Sewer Fund:				
Land	47,133	-	-	47,133
Subtotal	<u>63,905</u>	<u>-</u>	<u>-</u>	<u>63,905</u>
Capital assets being depreciated:				
Water Fund:				
Water system	2,485,537	726	-	2,486,263
Sewer Fund:				
Sewer system	7,230,255	-	-	7,230,255
Equipment	5,957	-	-	5,957
Subtotal	<u>9,721,749</u>	<u>726</u>	<u>-</u>	<u>9,722,475</u>
Less: Accumulated depreciation				
Water Fund:				
Water system	321,847	49,718	-	371,565
Sewer Fund:				
Sewer system	937,074	144,605	-	1,081,679
Equipment	3,619	579	-	4,198
Subtotal	<u>1,262,540</u>	<u>194,902</u>	<u>-</u>	<u>1,457,442</u>
Net capital assets being depreciated	<u>8,459,209</u>	<u>(194,176)</u>	<u>-</u>	<u>8,265,033</u>
Business-type activities total assets				
Net of depreciation	<u>\$ 8,523,114</u>	<u>\$ (194,176)</u>	<u>\$ -</u>	<u>\$ 8,328,938</u>

Depreciation expense was charged in the financial statements as follows:

Business-type Activities	
Water	\$ 49,718
Sewer	<u>145,184</u>
	<u>\$ 194,902</u>

**Note 4 - Due to Townships**

The amount due to Townships, \$152,079 at March 31, 2006 is composed of \$91,585 due to Big Creek Township and \$60,494 due to Mentor Township. The Townships have advanced this money to the utility authority, interest free, to be paid back once the water and sewer systems become self supporting.

Big Creek - Mentor Utility Authority  
Notes to Financial Statements  
March 31, 2006

**Note 5 - Risk Management**

Big Creek - Mentor Utility Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last 3 fiscal years.

**Note 6 - Long Term Debt**

The Utility Authority's outstanding debt at March 31, 2006 is composed of two issues of sewage disposal revenue bonds. Both series are payable, both as to principal and interest, solely from the net revenues of the sewer system.

	Balance April 1, 2005	Additions (Reductions)	Balance March 31, 2006	Due Within One Year
Bond No. 1 - Issue date 6/17/97				
Original amount - \$2,000,000				
Interest at the rate of 5.000%				
due semi-annually commencing				
11/1/97. Principal due annually				
in amounts ranging from \$18,000				
to \$116,000 commencing 5/1/99.				
Final payment due 5/1/37.	\$ 1,889,000	(22,000)	\$ 1,867,000	\$ 24,000
Bond No. 2 - issue date 6/17/97				
Original amount - \$135,000				
Interest at the rate of 5.000%				
due semi-annually commencing				
11/1/97. Principal due annually				
in amounts ranging from \$1,000				
to \$13,000 commencing 5/1/99.				
Final payment due 5/1/37.	128,000	(2,000)	126,000	1,000
Totals	\$ <u>2,017,000</u>	\$ <u>(24,000)</u>	\$ <u>1,993,000</u>	\$ <u>25,000</u>

Future payments due are as follows:

Year ended March 31,	Principal	Interest	Total
2007	\$ 25,000	\$ 99,025	\$ 124,025
2008	27,000	97,725	124,725
2009	28,000	96,350	124,350
2010	30,000	94,900	124,900
2011	31,000	93,375	124,375
2012-2016	181,000	441,225	622,225
2017-2021	233,000	385,775	618,775
2022-2026	301,000	323,425	624,425
2027-2031	389,000	237,625	626,625
2032-2036	502,000	126,750	628,750
2037-2038	246,000	12,600	258,600
	\$ <u>1,993,000</u>	\$ <u>2,008,775</u>	\$ <u>4,001,775</u>

Big Creek - Mentor Utility Authority  
Notes to Financial Statements  
March 31, 2006

**Note 7 - Required Deposits**

Big Creek - Mentor Utility Authority, under terms of the Sewage Disposal System Revenue Bonds, is required to establish certain reserve accounts. The Bond Reserve Account was effective May 1, 1999 and is to be funded with an annual deposit of \$12,690, until there is \$126,900 accumulated in the account. The Bond Redemption Reserve is to be funded by a monthly deposit. The monthly deposit is equal to 1/6 of the interest payment next coming due and 1/12 of the principal payment next coming due.

The Authority is using Certificates of Deposit to fund the Bond Redemption Reserve. An annual deposit is made when the a Certificate of Deposit is purchased. The Authority made the required deposit for the year ended March 31, 2006.

The Bond Reserve Account was established on February 7, 2001 with a deposit of \$12,690. The required balance as of March 31, 2006 is \$88,830. The actual balance is the Bond Reserve Account is \$83,797.

The Authority made an additional deposit to the Bond Reserve Account on May 9, 2006 in the amount of \$7,362. This additional deposit brings the Authority into compliance with the required balance.

## **Supplemental Information**



Big Creek - Mentor Utility Authority  
Combining Balance Sheet  
All Proprietary Fund Types  
March 31, 2006  
With Comparative Totals for March 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>2006 Total</u>	<u>2005 Total</u>
<b>ASSETS</b>				
Current Assets:				
Petty cash	\$ -	\$ 50	\$ 50	\$ 50
Cash - checking	21,735	144,311	166,046	114,445
Cash - certificates of deposit	-	121,314	121,314	118,063
Cash - bond reserve	-	83,797	83,797	68,778
Accounts receivable - usage fees	10,635	35,041	45,676	46,192
Accounts receivable - hookup fees	-	328,551	328,551	355,049
Fixed assets:				
Land	16,772	47,133	63,905	63,905
Sewer system	-	7,230,255	7,230,255	7,230,255
Equipment	-	5,957	5,957	5,957
Water system	2,486,263	-	2,486,263	2,485,537
Accumulated depreciation	<u>(371,565)</u>	<u>(1,085,877)</u>	<u>(1,457,442)</u>	<u>(1,262,540)</u>
Total assets	<u>\$ 2,163,840</u>	<u>\$ 6,910,532</u>	<u>\$ 9,074,372</u>	<u>\$ 9,225,691</u>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 10,080	\$ 24,952	\$ 35,032	\$ 32,331
Due to townships	14,000	138,079	152,079	152,079
Bonds payable	<u>-</u>	<u>1,993,000</u>	<u>1,993,000</u>	<u>2,017,000</u>
Total liabilities	<u>24,080</u>	<u>2,156,031</u>	<u>2,180,111</u>	<u>2,201,410</u>
<b>FUND EQUITY</b>				
Contributed capital - Federal	-	4,435,422	4,435,422	4,539,712
Contributed capital - State	2,122,583	-	2,122,583	2,172,100
Contributed capital - Local	<u>34,645</u>	<u>1,346,130</u>	<u>1,380,775</u>	<u>1,259,229</u>
Total contributed capital	2,157,228	5,781,552	7,938,780	7,971,041
Retained earnings	<u>(17,468)</u>	<u>(1,027,051)</u>	<u>(1,044,519)</u>	<u>(946,760)</u>
Total fund equity	<u>2,139,760</u>	<u>4,754,501</u>	<u>6,894,261</u>	<u>7,024,281</u>
Total liabilities and fund equity	<u>\$ 2,163,840</u>	<u>\$ 6,910,532</u>	<u>\$ 9,074,372</u>	<u>\$ 9,225,691</u>

Big Creek - Mentor Utility Authority  
Combining Statement of revenues, Expenses, and Changes in Fund Equity  
All Proprietary Fund Types  
Year Ended March 31, 2006  
With Comparative Totals for March 31, 2005

	Water Fund	Sewer Fund	2006 Total	2005 Total
OPERATING REVENUES				
Charges for services	\$ 56,193	\$ 203,329	\$ 259,522	\$ 279,195
Penalties and interest charges	1,426	24,746	26,172	43,172
Miscellaneous	-	1,944	1,944	8,943
Total operating revenues	<u>57,619</u>	<u>230,019</u>	<u>287,638</u>	<u>331,310</u>
OPERATING EXPENSES				
Contracted services	59,359	130,106	189,465	203,408
Insurance	-	8,505	8,505	8,590
Maintenance and repairs	1,372	1,720	3,092	50
Wages and payroll taxes	-	12,225	12,225	11,087
Professional services	-	6,064	6,064	4,641
Printing and publishing	-	450	450	-
Office expenses	-	3,938	3,938	3,953
Supplies	-	489	489	554
Licenses and permits	-	4,263	4,263	3,725
Utilities	2,743	21,643	24,386	24,586
Depreciation	49,718	145,184	194,902	194,948
Total operating expenses	<u>113,192</u>	<u>334,587</u>	<u>447,779</u>	<u>455,542</u>
OPERATING INCOME (LOSS)	<u>(55,573)</u>	<u>(104,568)</u>	<u>(160,141)</u>	<u>(124,232)</u>
NON OPERATING REVENUES (EXPENSES)				
Interest income	223	8,602	8,825	5,590
Interest expense - bonds	-	(100,250)	(100,250)	(101,400)
Net nonoperating revenues (expenses)	<u>223</u>	<u>(91,648)</u>	<u>(91,425)</u>	<u>(95,810)</u>
NET INCOME (LOSS)	(55,350)	(196,216)	(251,566)	(220,042)
AMORTIZATION OF CONTRIBUTED CAPITAL - GRANTS	49,517	104,290	153,807	153,807
FUND EQUITY - Retained earnings - April 1	<u>(11,635)</u>	<u>(935,125)</u>	<u>(946,760)</u>	<u>(880,525)</u>
FUND EQUITY - Retained earnings - March 31	<u>\$ (17,468)</u>	<u>\$ (1,027,051)</u>	<u>\$ (1,044,519)</u>	<u>\$ (946,760)</u>
FUND EQUITY - Contributed capital - April 1	\$ 2,203,549	\$ 5,767,492	\$ 7,971,041	\$ 8,071,860
Contributions - Capital grants - State	-	-	-	-
Amortization - Capital grants	(49,517)	(104,290)	(153,807)	(153,807)
Contributions - Local	<u>3,196</u>	<u>118,350</u>	<u>121,546</u>	<u>52,988</u>
FUND EQUITY - Contributed capital - March 31	<u>\$ 2,157,228</u>	<u>\$ 5,781,552</u>	<u>\$ 7,938,780</u>	<u>\$ 7,971,041</u>

Big Creek - Mentor Utility Authority  
Combining Statement of Cash Flows  
All Proprietary Fund Types  
Year Ended March 31, 2006  
With Comparative Totals for March 31, 2005

	Water Fund	Sewer Fund	2006 Total	2005 Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 56,368	\$ 258,284	\$ 314,652	\$ 324,208
Cash payments to suppliers for goods and services	(63,154)	(175,925)	(239,079)	(237,092)
Cash payments to employees for services	<u>-</u>	<u>(11,097)</u>	<u>(11,097)</u>	<u>(10,328)</u>
	<u>(6,786)</u>	<u>71,262</u>	<u>64,476</u>	<u>76,788</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(726)	-	(726)	(2,436)
Contributed capital - Local	3,196	118,350	121,546	52,988
Principal paid on bonds	-	(24,000)	(24,000)	(22,000)
Interest paid on bonds	<u>-</u>	<u>(100,250)</u>	<u>(100,250)</u>	<u>(101,400)</u>
Net cash provided by capital and related financing activities	2,470	(5,900)	(3,430)	(72,848)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	<u>223</u>	<u>8,602</u>	<u>8,825</u>	<u>5,590</u>
NET increase (decrease) in cash	(4,093)	73,964	69,871	9,530
CASH - April 1	<u>25,828</u>	<u>275,508</u>	<u>301,336</u>	<u>291,806</u>
CASH - March 31	<u>\$ 21,735</u>	<u>\$ 349,472</u>	<u>\$ 371,207</u>	<u>\$ 301,336</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (55,573)	\$ (104,568)	\$ (160,141)	\$ (124,232)
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation	49,718	145,184	194,902	194,948
(Increase) decrease in accounts receivable	(1,251)	28,265	27,014	(7,103)
Increase (decrease) in accounts payable	<u>320</u>	<u>2,381</u>	<u>2,701</u>	<u>13,175</u>
Net cash provided (used) by operating activities	<u>\$ (6,786)</u>	<u>\$ 71,262</u>	<u>\$ 64,476</u>	<u>\$ 76,788</u>

Big Creek - Mentor Utility Authority  
Comparative Balance Sheet  
Water Fund  
March 31, 2006 and 2005

	March 31, 2006	March 31, 2005
ASSETS		
Cash - checking	\$ 21,735	\$ 25,828
Accounts receivable - usage fees	10,635	9,384
Fixed assets:		
Land	16,772	16,772
Water system	2,486,263	2,485,537
Accumulated depreciation	<u>(371,565)</u>	<u>(321,847)</u>
Total assets	\$ <u>2,163,840</u>	\$ <u>2,215,674</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	\$ 10,080	\$ 9,760
Due to townships	<u>14,000</u>	<u>14,000</u>
Total liabilities	<u>24,080</u>	<u>23,760</u>
FUND EQUITY		
Contributed capital - State	2,122,583	2,172,100
Contributed capital - Local	<u>34,645</u>	<u>31,449</u>
Total contributed capital	<u>2,157,228</u>	<u>2,203,549</u>
Retained earnings	<u>(17,468)</u>	<u>(11,635)</u>
Total fund equity	<u>2,139,760</u>	<u>2,191,914</u>
Total liabilities and fund equity	\$ <u>2,163,840</u>	\$ <u>2,215,674</u>

Big Creek - Mentor Utility Authority  
Comparative Statement of Revenues, Expenses, and Changes in Fund Equity  
Water Fund  
Years Ended March 31, 2006 and 2005

	March 31, 2006	March 31, 2005
OPERATING REVENUES		
Charges for services	\$ 56,193	\$ 61,682
Penalties and interest charges	1,426	2,965
Miscellaneous	-	-
	<u>57,619</u>	<u>64,647</u>
Total operating revenues		
OPERATING EXPENSES		
Contracted services	59,359	62,560
Maintenance and repairs	1,372	-
Office expenses	-	-
Utilities	2,743	2,657
Depreciation	49,718	49,710
	<u>113,192</u>	<u>114,927</u>
Total operating expenses		
OPERATING INCOME (LOSS)	(55,573)	(50,280)
NON OPERATING REVENUE		
Interest income	223	139
	<u>223</u>	<u>139</u>
NET INCOME (LOSS)	(55,350)	(50,141)
AMORTIZATION OF CONTRIBUTED CAPITAL - GRANTS	49,517	49,517
	<u>(11,635)</u>	<u>(11,011)</u>
FUND EQUITY - Retained earnings - April 1		
FUND EQUITY - Retained earnings - March 31	\$ <u>(17,468)</u>	\$ <u>(11,635)</u>
FUND EQUITY - Contributed capital - April 1	\$ 2,203,549	\$ 2,253,066
Amortization - Capital grants - State	(49,517)	(49,517)
Contributions - Local	3,196	-
	<u>2,157,228</u>	<u>2,203,549</u>
FUND EQUITY - Contributed capital - March 31	\$ <u>2,157,228</u>	\$ <u>2,203,549</u>

Big Creek - Mentor Utility Authority  
Comparative Statement of Cash Flows  
Water Fund  
Years Ended March 31, 2006 and 2005

	March 31, 2006	March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 56,368	\$ 58,296
Cash payments to suppliers for goods and services	(63,154)	(60,228)
Cash payments to employees for services	-	-
Net cash provided (used) by operating activities	<u>(6,786)</u>	<u>(1,932)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(726)	-
Contributed capital - Local	<u>3,196</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	2,470	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>223</u>	<u>139</u>
Net increase (decrease) in cash	(4,093)	(1,793)
CASH - April 1	<u>25,828</u>	<u>27,621</u>
CASH - March 31	\$ <u><u>21,735</u></u>	\$ <u><u>25,828</u></u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (55,573)	\$ (50,280)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	49,718	49,710
(Increase) decrease in accounts receivable	(1,251)	(6,352)
Increase (decrease) in accounts payable	<u>320</u>	<u>4,990</u>
Net cash provided (used by) operating activities	\$ <u><u>(6,786)</u></u>	\$ <u><u>(1,932)</u></u>

Big Creek - Mentor Utility Authority  
Comparative Balance Sheet  
Sewer Fund  
March 31, 2006 and 2005

	March 31, 2006	March 31, 2005
<b>ASSETS</b>		
Petty cash	\$ 50	\$ 50
Cash - checking	144,311	88,617
Cash - certificates of deposit	121,314	118,063
Cash - bond reserve	83,797	68,778
Accounts receivable - usage fees	35,041	36,808
Accounts receivable - hookup fees	328,551	355,049
Fixed assets:		
Land	47,133	47,133
Sewer system	7,230,255	7,230,255
Equipment	5,957	5,957
Accumulated depreciation	<u>(1,085,877)</u>	<u>(940,693)</u>
Total assets	\$ <u><u>6,910,532</u></u>	\$ <u><u>7,010,017</u></u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 24,952	\$ 22,571
Due to townships	138,079	138,079
Bonds payable	<u>1,993,000</u>	<u>2,017,000</u>
Total liabilities	<u>2,156,031</u>	<u>2,177,650</u>
<b>FUND EQUITY</b>		
Contributed capital - Federal	4,435,422	4,539,712
Contributed capital - Local	<u>1,346,130</u>	<u>1,227,780</u>
Total contributed capital	5,781,552	5,767,492
Retained earnings	<u>(1,027,051)</u>	<u>(935,125)</u>
Total fund equity	<u>4,754,501</u>	<u>4,832,367</u>
Total liabilities and fund equity	\$ <u><u>6,910,532</u></u>	\$ <u><u>7,010,017</u></u>

Big Creek - Mentor Utility Authority  
Comparative Statement of Revenues, Expenses, and Changes in Fund Equity  
Sewer Fund  
Years Ended March 31, 2006 and 2005

	March 31, 2006	March 31, 2005
OPERATING REVENUES		
Charges for services	\$ 203,329	\$ 217,513
Penalties and interest charges	24,746	40,207
Miscellaneous	1,944	8,943
Total Operating revenues	<u>230,019</u>	<u>266,663</u>
OPERATING EXPENSES		
Contracted services	130,106	140,848
Insurance	8,505	8,590
Maintenance and repairs	1,720	50
Wages and payroll taxes	12,225	11,087
Professional services	6,064	4,641
Printing and publishing	450	-
Office expenses	3,938	3,953
Supplies	489	554
Licenses and permits	4,263	3,725
Utilities	21,643	21,929
Depreciation	145,184	145,238
Total operating expenses	<u>334,587</u>	<u>340,615</u>
OPERATING INCOME (LOSS)	(104,568)	(73,952)
NON OPERATING REVENUES (EXPENSES)		
Interest income	8,602	5,451
Interest expense - bonds	(100,250)	(101,400)
Net nonoperating revenues (expenses)	<u>(91,648)</u>	<u>(95,949)</u>
NET INCOME (LOSS)	(196,216)	(169,901)
AMORTIZATION OF CONTRIBUTED CAPITAL - GRANTS	104,290	104,290
FUND EQUITY - Retained earnings - April 1	<u>(935,125)</u>	<u>(869,514)</u>
FUND EQUITY - Retained earnings - March 31	\$ <u><u>(1,027,051)</u></u>	\$ <u><u>(935,125)</u></u>
 FUND EQUITY - Contributed capital - April 1	 \$ 5,767,492	 \$ 5,818,794
Amortization - Capital grants - Federal	(104,290)	(104,290)
Contributions - Local	<u>118,350</u>	<u>52,988</u>
FUND EQUITY - Contributed capital - March 31	\$ <u><u>5,781,552</u></u>	\$ <u><u>5,767,492</u></u>



Big Creek - Mentor Utility Authority  
Comparative Statement of Cash Flows  
Sewer Fund  
Years Ended March 31, 2006 and 2005

	March 31, 2006	March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 258,284	\$ 265,912
Cash payments to suppliers for goods and services	(175,925)	(176,864)
Cash payments to employees for services	(11,097)	(10,328)
	<u>71,262</u>	<u>78,720</u>
Net cash provided (used) by operating activities		
	<u>71,262</u>	<u>78,720</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	-	(2,436)
Contributed capital - Local	118,350	52,988
Principal paid on bonds	(24,000)	(22,000)
Interest paid on bonds	(100,250)	(101,400)
	<u>(5,900)</u>	<u>(72,848)</u>
Net cash provided (used) by capital and related financing activities		
	<u>(5,900)</u>	<u>(72,848)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	8,602	5,451
	<u>8,602</u>	<u>5,451</u>
NET increase (decrease) in cash	73,964	11,323
CASH - April 1	275,508	264,185
	<u>275,508</u>	<u>264,185</u>
CASH - March 31	\$ 349,472	\$ 275,508
	<u>\$ 349,472</u>	<u>\$ 275,508</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (104,568)	\$ (73,952)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	145,184	145,238
(Increase) decrease in accounts receivable	28,265	(751)
Increase (decrease) in accounts payable	2,381	8,185
	<u>175,830</u>	<u>142,672</u>
Net cash provided (used) by operating activities	\$ 71,262	\$ 78,720
	<u>\$ 71,262</u>	<u>\$ 78,720</u>

## **Appendices**



## ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 308 • 109 E. Tenth St. • Mio, Michigan 48647

Phone (989) 826-5442 • Fax (989) 826-3038

Other office: Rose City, Michigan

Robert J. Carpenter, CPA  
Rodney C. Robertson, CPA

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Utility Authority Board  
Big Creek - Mentor Utility Authority  
Mio, Michigan 48647

We have audited the financial statements of the business-type activities of Big Creek - Mentor Utility Authority as of and for the year ended March 31, 2006, which comprise Big Creek - Mentor Utility Authority's basic financial statements and have issued our report thereon dated November 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Big Creek - Mentor Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether Big Creek - Mentor Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Utility Authority Board, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
Mio, Michigan  
November 27, 2006



Robert J. Carpenter, CPA  
Rodney C. Robertson, CPA

## ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 308 • 109 E. Tenth St. • Mio, Michigan 48647

Phone (989) 826-5442 • Fax (989) 826-3038

*Other office: Rose City, Michigan*

November 27, 2006

To the Authority Board  
Big Creek - Mentor Utility Authority  
Mio, Michigan

We have audited the financial statements of Big Creek - Mentor Utility Authority for the year ended March 31, 2006, and have issued our report thereon dated November 27, 2006. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 1, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Big Creek - Mentor Utility Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Big Creek - Mentor Utility Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Big Creek - Mentor Utility Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2006. We noted no transactions entered into by Big Creek - Mentor Utility Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and

assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Big Creek - Mentor Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Big Creek - Mentor Utility Authority, either individually or in the aggregate, indicates matters that could have a significant effect on the Big Creek - Mentor Utility Authority's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Big Creek - Mentor Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

### **Other Comments**

#### Uniform Chart of Accounts

The Authority is not in compliance with the Uniform Chart of Accounts issued by the Michigan Department of Treasury. We recommend that the Authority fully implement the Uniform Chart of Accounts into the accounting system.

#### Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Big Creek – Mentor Utility Authority.

This information is intended solely for the use of the Authority Board and management of Big Creek - Mentor Utility Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

ROBERTSON & CARPENTER CPAs, P.C.  
Certified Public Accountants